

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8563

TREASURY DEPT WASHDC

UNCLAS LONDON 11913

TREASURY PASS D. ROSENBLUM AND M. FEINBERG

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: PRESS REPORTS OF THE GOVERNMENT'S POSITION ON
DOUBLE TAX TREATY

1. THE FINANCIAL TIMES REPORTED COMMENTS BY AND SPECULATED ON THE ATTITUDE OF THE GOVERNMENT TOWARD THE US-UK DOUBLE TAX CONVENTION. UNDER THE HEADLINE "DOUBLE TAX TREATY", IT WROTE:

QUOTE: THE UK GOVERNMENT IS SEEKING A U.S. CONCESSION IN THE ANGLO-AMERICAN DOUBLE TAXATION TREATY TO COMPENSATE FOR THE DELETION BY THE SENATE OF A KEY CLAUSE.

MR. DENZIL DAVIES, MINISTER OF STATE AT THE TREASURY SAID YESTERDAY IN A WRITTEN PARLIAMENTARY ANSWER: "THERE HAS BEEN A USEFUL EXCHANGE OF VIEWS, BUT CERTAIN ASPECTS REQUIRE FURTHER EXPLANATION AND DISCUSSIONS WILL BE RESUMED."

THE TALKS -- BETWEEN THE INLAND REVENUE AND THE U.S. TREASURY -- MEAN THAT THE TREATY, THE NEGOTIATIONS OVER WHICH BEGAN IN 1972, CANNOT BE FINALLY APPROVED BEFORE NOVEMBER AT THE EARLIEST. THE AMENDED TREATY REQUIRES
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PARLIAMENTARY APPROVAL AND THERE WILL NOT BE TIME FOR THIS BEFORE THE RECESS, WHICH BEGINS NEXT WEEK.

THE SENATE APPROVED THE TREATY LAST MONTH, MORE THAN A YEAR AFTER PARLIAMENT, ALTHOUGH IT DELETED A CLAUSE CURBING STATES' ABILITIES TO TAX BRITISH COMPANIES ON A UNITARY BASIS, WHICH TAXES MULTINATIONALS ON A PROPORTION OF THEIR WORLDWIDE INCOME.

THE MAIN EFFECT WILL BE IN CALIFORNIA, WHERE IT IS
ESTIMATED UK COMPANIES WILL HAVE TO PAY IN TOTAL AS MUCH
AS \$30 MILLION MORE THAN UNDER CONVENTIONAL TAXATION ON
PROFITS ARISING IN THE STATE.

THE SIGNS ARE THAT THE UK GOVERNMENT IS RESIGNED TO
THE LOSS OF THE CONTROVERSIAL CLAUSE AND IS
NOT PREPARED TO JETTISON THE WHOLE TREATY, WHICH IT
FEELS CONTAINS SEVERAL ADVANTAGEOUS ITEMS, BECAUSE OF IT.

THE TALKS WITH THE U.S. TREASURY PROBABLY ARE DIREC-
TED TOWARDS FINDING A COMPENSATING CONCESSION WHICH WOULD
PASS THROUGH THE SENATE WITHOUT TOO MUCH DIFFICULTY.

BEFORE THE TREATY CAN START OPERATING THE SAME TEXT
MUST BE APPROVED BY THE SENATE AND PARLIAMENT. END QUOTE

BREWSTER

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